Presentation on the New Long-term Safety Net Program

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Realized Net Income From The Marketplace and Realized Net Incomes With Current Government Assistance 1980 to 1990

$ million

	Realized net farm income from the marketplace	Realized net farm incomes with current safety nets[1]
1980	858	929
1981	995	1041
1982	934	929
1983	690	703
1984	774	1003
1985	58	548
1986	-135	652
1987	-296	904
1988	25	995
1989	-82	776
1990	-195	188

[1] includes WGSA, Crop Insurance and ad hoc payments minus producer premiums

Government Assistance in Place During the 1980s

<u>Ongoing Programs</u>

- Crop Insurance
- Western Grain Stabilization Plan

<u>Ad Hoc Programs</u>

- Special Canadian Grains Program I and II
- Canadian Crop Drought Assistance Program
- Canada Saskatchewan Crop Assistance Program

The Need for New Safety Nets

A. Future realized net incomes were negative with current safety nets.

B. Producers and government wanted programs with:

i) more predictability

ii) cost sharing by governments and producers

iii) resource neutrality

Safety Net Committee

Purpose

- design a new safety net program for grains and oilseeds

Membership

- 19 producer representatives
  - Saskatchewan farmer representatives Gordon Cresswell, Barry Senft, Gil Pederson, Keith Lewis, Terry Hanson, Roy Piper

- 7 federal government representatives

- 8 provincial government representatives

Recommendation of Safety Net Committee

- A three tier safety net mechanism

  1. appropriate management decisions at the farm level

  2. a gross revenue insurance program (GRIP) and a net income stabilization account (NISA)

  3. a third tier to provide assistance under exceptional conditions

NISA

- net income stabilization account (NISA)
- a RRSP type stabilization account for farmers
- gives farmers the opportunity to place their own money in an account, have it matched by government and earn a rate of interest above the market rate

NISA Details

- individual accounts that cannot go into deficit
- 2% producer contribution based on gross sales of eligible commodities
- producer contribution matched by governments
- eligible commodities will include farm fed grains by including part of the gross revenue from livestock and poultry sales
- producers can contribute an additional 20% on a voluntary basis (not matched)
- producer contribution only, earn interest at 3% above market rate as an incentive

Further NISA Details

- payments made when

    i) current year farm net income is below five year average (net income is gross eligible sales minus eligible operating expenses), or

    ii) if net income is below a minimum such as $10,000 (including non farm income)

- NISA will be in place for 1990. Complete forms at income tax time.

- NISA funds on retirement are treated similar to RRSPs

GRIP

- Gross Revenue Insurance Plan

- provided through two programs:

    i) production insurance (current crop insurance)

    ii) revenue (price) insurance

- when combined are GRIP

- based on an indexed moving average price (IMAP) and average yield at the individual farm level (average yield is the farmers actual 10-year average yield as established by crop insurance)

Commodities Covered

Eligible Crops

- wheat - all types
- durum
- barley
- oats
- rye
- flax
- canola
- mustard
- sunflowers
- lentils
- peas
- canaryseed
- buckwheat
- caraway seed
- safflower
- mixed grains
- fababeans
- triticale
- a process will be in place to allow other crops to be included in the future

Length of Participation

- participation is voluntary

- producer must give three years notice to withdraw and stay out an additional two years after withdrawing

IMAP Price

- a mechanism to calculate a support level based on the average of 15 years of prices indexed by a production cost index
- Example - support price for wheat for 1991

	actual price	cost index 1981=100	indexed price (1991 $)	
1975	3.46	.552	8.05	Average 5.92
1976	2.85	.609	6.01	70% of average
1977	2.83	.631	5.76	= $4.15
1978	3.90	.669	7.49	
1979	4.81	.738	8.37	
1980	5.63	.850	8.50	
1981	5.14	1.000	6.60	
1982	4.68	1.058	5.68	
1983	4.84	1.069	5.81	
1984	4.76	1.107	5.52	
1985	3.65	1.133	4.14	
1986	2.86	1.104	3.33	
1987	3.13	1.084	3.71	
1988	4.84	1.098	5.66	
1989	3.70	1.127	4.22	
1990	3.08*	1.173*		
1991	2.43*	1.284*		*estimated

How Does a Producer Calculate His/Her Guarantee

- the per acre guarantee is 70% IMAP times the average yield of the farmer (from crop insurance)

  e.g. wheat on summerfallow

70% IMAP	$4.15 per bushel
average yield	30 bushels
guarantee	$4.15 * 30
	= $124.50 per acre

- 70% IMAP prices (subject to revision)

spring wheat	$4.15 per bushel
durum	$4.51 per bushel
barley	$2.35 per bushel
flax	$7.34 per bushel
canola	$6.37 per bushel

Base Acres

- eligible acres in any year will be limited to base seeded acres (three years average seeded acres plus 10% adjustment and provisions for when land is added or disposed of)

GRIP Payment - A Farm Example

Farm 1
- 900 cultivated acres located at Weyburn
- 70% cropped 30% summerfallow

Crop	Acres	Average Yield bu/acre	70% IMAP Price $bu	Projected Market Price $/bu	Guaran. per acre
smf wheat	100	28	$4.15	$2.43	$116.20
stubble wheat	260	21	$4.15	$2.43	$ 87.15
smf durum	170	28	$4.51	$3.13	$126.28
stubble flax	100	15	$7.34	$5.61	$110.10

Crop	Guaran. Total	Projected[1] Revenue at aver. yield	GRIP Payment
smf wheat	$11620.00	$ 6804.00	$ 4816.00
stubble wheat	$22659.00	$13267.80	$9391.20
smf durum	$21467.60	$14898.80	$ 6568.80
stubble flax	$11010.00	$ 8415.00	$ 2595.00
	$66756.60	$43385.60	$23371.00

[1] Average yield times projected market price.
[2] Preliminary estimates. The premium setting methodology will be fine tuned over the next month.

GRIP Payment - A Farm Example

Farm 2
- 800 cultivated acres located at Foam Lake
- 80% cropped 20% summerfallow

Crop	Acres	Average Yield bu/acre	70% IMAP Price $bu	Projected Market Price $/bu	Guaran. per acre
stubble wheat	240	25	$4.15	$2.43	$103.75
stubble barley	240	42	$2.35	$1.39	$ 98.70
smf canola	160	26	$6.37	$5.67	$165.62

Crop	Guaran. Total	Projected[1] Revenue at aver. yield	GRIP Payment
stubble wheat	$24900.00	$14580.00	$10320.00
stubble barley	$23688.00	$14011.20	$ 9676.80
smf canola	$26499.20	$23587.20	$ 2912.00
	$75087.20	$52178.40	$22908.80

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[1] Average yield times projected market price

[2] Preliminary estimates. The premium setting methodology will be fine tuned over the next month.

Farm 1

GRIP Payout	Premium	
$23371.00	Production Insurance producer share 50%	$2277.71
	Revenue Insurance producer share 33 1/3%	$4078.38
Total $23371.00	Total	$6356.09

Farm 2

GRIP Payout	Premium	
$22908.80	Production Insurance producer share 50%	$2191.51
	Revenue Insurance producer share 33 1/3%	$4587.37
Total $22908.80	Total	$6778.88

Advantages of GRIP and NISA

- targetted. The programs are targetted to individual farmers based on their own yields
- offsets. High prices offset low yields and vice versa. Efficient use of taxpayer and farmer premiums.
- guarantees. Farmers know before seeding what their bottom line guarantee will be.
- resource neutral. Farm fed grain included in GRIP. Specialty crops are included.

Transition Year

1991/92

- will be a transition year
- producers will have the option of joining either production insurance or revenue insurance or both
- coverage will be on each individual commodity
- must enroll all crops in the revenue plan

1992/93

- if joining revenue insurance for 1991/92 then are automatically in GRIP
- production insurance and revenue insurance with all crops
- full offsets between price and yield and crops may be in place

Program Options

After 1991/92

GRIP	Crop Insurance Only
• Crop Insurance	
• Revenue Insurance	

NISA

Comparison of Safety Nets
Producer Costs & Benefits for 1991/92
A Farm Example

Farm 1

- 900 cultivated acres
- 70% cropped 30% fallow

Current Programs	Premiums	Payments
WGSA		
Levy	$2,400	
Payment		$5,500
Crop Insurance		
Premium	$2,277	
Payment		0
Total	$4,677	$5,500

New Safety Net		
GRIP		
Premium	$6,356	
Payment		$23,371
Total	$6,356	$23,371

Comparison of Costs of Current Safety Nets and New Safety Net (GRIP) for 1991/92

$million

Current Safety Nets	Federal	Provincial	Producer	Total
WGSA				
Levy	216 (60%)	-	144 (40%)	360
Crop Insurance				
Levy	42.5 (25)	42.5 (25%)	85 (50%)	170
	258.5	42.5	229	530
New Safety Nets				
GRIP				
Production	42.5 (25%)	42.5 (25%)	85 (50%)	170
Revenue	204.2 (41.67%)	122.5 (25%)	163.3 (33 1/3%)	490
	246.7	165	248.3	660
NISA	31.5 (25%)	31.5 (25%)	63 (50%)	126

Projected GRIP and NISA Payments for 1991/92 and 1992/93

	GRIP (both production and revenue insurance payments)	NISA	Total
	$million		
1991/92	$1180	$125	$1305
1992/93	$894	$118	$1012

Cost Shares for Safety Nets

	Producers	Federal	Provincial
GRIP			
Production Insurance	50%	25%	25%
Revenue Insurance	33 1/3%	41 2/3%	25%
Administration		50%	50%
Total Program (average)	40%	35%	25%
NISA	50%	25%	25%